



Key Issues

By Laura Gibbons and Nicolas Walden

According to The Hackett Group's 2021 Key Issues Study, spend cost reduction is firmly back at the top of the procurement agenda (see "2021 procurement key issues" on **page 4**) following an extremely volatile year, including a global health pandemic, substantial economic disruption, a tense political climate and growing calls for social justice around the world. In times of such great uncertainty, procurement must provide stability to the enterprise through spend cost reduction and supply assurance. As expected, supply risk management has emerged as the procurement function's second most important objective in 2021.

Procurement must also support enterprise stabilization and recovery strategies by expanding its role as a strategic advisor that can quickly realign to changing market conditions and business priorities, and add new sources of value to the business – for example, new and innovative sources of supply and early warnings of potential supply risk. Other procurement objectives reflect the function's need to adapt more quickly as conditions change, as well as digital tools, strong talent and improved analytics capabilities. Notably, meeting corporate sustainability goals makes the list of 10 key issues for the first time.

The 2020 crisis is shaping the 2021 procurement agenda

Unprecedented business disruption forced procurement organizations to refocus on supporting critical business operations and supplier relationships, resulting in a pivot toward spend cost reduction and supply assurance. Respondents to the 2021 Key Issues Study expect stability to remain elusive: 41% believe conditions will stabilize by the second half of 2021, but 36% predict it will take longer. Therefore, the crisis and its fallout will continue to shape procurement priorities in 2021 and beyond. The dramatic shift in virtual working is a case in point. Before the crisis, 4% of general and administrative staff worked primarily from home, and 13% had hybrid arrangements, working between home and the office. Post-crisis, these percentages are expected to rise to 25% and 33%, respectively. As procurement continues on the path to becoming a more strategic and business-enabling function, four emerging enterprise themes will influence the 2021 procurement transformation agenda:

Risk: Our 2021 Key Issues Study highlights a major increase in business risks across the board – from supply chain disruption to cybersecurity to regulatory change to the economic implications of prolonged pandemic-related restrictions. All parts of the organization, especially procurement, will feel the effects of this high-risk business environment and need to factor this into their 2021 transformation agenda.

People: The shift to virtual work will require significant reskilling and innovation of management techniques. Companies will tap into an increasingly global talent pool. Performance management will evolve from measuring activity- and task-based productivity to business outcomes based on teamwork and collaboration. Further, diversity and inclusion has become a top priority.

Cost: Under the prevailing crisis recovery conditions, cost takes center stage. Procurement must continue to deliver its most basic value proposition: spend cost reduction. The combination of significant 2020 cost cuts and increased workloads is straining many procurement organizations, and this will continue into 2021.

Digital acceleration: Digital maturity was a major factor in companies' ability to respond to the crisis, creating competitive differentiation. Most companies have taken the lessons to heart and plan to accelerate enterprise digital transformation. Procurement must support the enterprise digital agenda, while shifting its own digital transformation into overdrive. In particular, smart automation, master data management, collaboration technologies, and digitization of processes, assets, and content will be major areas of focus throughout the enterprise.

2021 procurement key issues

1 REDUCE SPEND COST
Reducing purchasing costs has consistently been a top priority for procurement organizations, indicating that providing core services is a basic requirement for success.

2 REDUCE SUPPLY RISK TO ENSURE SUPPLY CONTINUITY
Following the early impacts of COVID-19, procurement's ability to assure supply was a critical capability. In 2021, procurement must continue to invest and reinforce third-party risk management.

3 ACT AS A STRATEGIC ADVISOR TO THE BUSINESS
Top-performing procurement organizations recognize that a strong relationship with the business enables early involvement with greater spend influence.

4 ACCELERATE PROCUREMENT DIGITAL TRANSFORMATION
Adoption of modern digital tools will allow procurement to make drastic improvements across its entire suite of services – from customer-centricity to predictive analytics to process efficiencies.

5 IMPROVE PROCUREMENT AGILITY
Becoming an agile enterprise is increasingly important for businesses, but that means developing agile behavior at the functional level.

6 MODERNIZE PROCUREMENT APPLICATION PLATFORMS
Modernizing technology provides several benefits to procurement, including improved agility, customer-centric processes and cost-efficiencies.

7 ALIGN SKILLS AND TALENT WITH CHANGING BUSINESS NEEDS
Organizations increasingly understand the need for top talent. For procurement, this means leveraging cross-training and investing in developing talent.

8 IMPROVE ANALYTICAL AND REPORTING CAPABILITIES
The potential of analytics is increasing quickly. Organizations should prioritize leveraging external data, optimizing dashboards, and adopting predictive and smart analytics.

9 ENABLE CORPORATE SUSTAINABILITY GOALS
Corporate social responsibility is climbing the ranks of priorities at many companies in 2021. Sustainable procurement is among the most critical areas in which procurement can make a big impact.

10 INCREASE SPEND INFLUENCE
Spend influence is among the top measurements of procurement's performance, leading to reduced purchasing costs, improved quality and better strategic outcomes like product innovation.

Source: 2021 Key Issues Study, The Hackett Group

1. Reduce spend cost.

Even companies that fared better during the pandemic must still brace for ongoing instability for some time. Procurement must continue to focus on its core mission of spend cost reduction, leveraging digital tools and business partnerships to maximize savings. For example, specialized procurement technologies can elevate the strategic sourcing process, and leveraging new data sources can widen the marketing intelligence available to sourcing teams.

2. Reduce supply risk to ensure supply continuity.

Supply assurance became top of mind at the board level during 2020. As a result, procurement is now tasked with further strengthening third-party risk management. While many procurement organizations feel confident in their existing risk management programs, the mandate is clear to accelerate and enhance these capabilities. This means engaging risk monitoring across a broader set of risk exposures at earlier stages of the supplier life cycle – during the beginning of the sourcing process – and continuing to monitor and mitigate risks using real-time data and insights through the full supplier life cycle. Visibility and timeliness are key in risk management. Procurement must use the proper digital tools to maximize visibility throughout the supply chain, and leverage market intelligence data from multiple internal and external sources.

3. Act as a strategic advisor to the business.

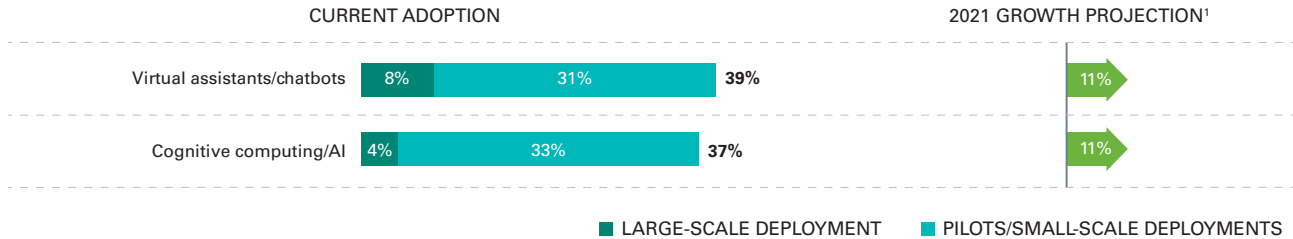
Organizations acting as trusted advisors leverage top talent to deliver consistency, agile behavior, and a deep knowledge of both the business and supply market. That allows them to maintain a collaborative, proactive partnership with stakeholders, and enable business success. In the next normal, procurement will elevate the role of its business partners to business enablement leaders – strategic procurement leaders who are aligned to key stakeholders and business delivery points to maximize a procurement-business partnership. Business enablement leaders coordinate business support across operating model nodes.

4. Accelerate procurement digital transformation.

The crisis pushed procurement beyond its traditional hesitancy to adopt new tools. In the future, success will depend, in large part, on broader implementation and adoption of modern enabling tools, including newer capabilities such as artificial intelligence (AI) and smart automation. While procurement teams have been experimenting with these technologies in limited use cases, it must now scale up to apply these technologies to more novel use cases to expand adoption throughout the function. Modernizing legacy technology platforms are critical, but to achieve transformational change, these projects must be treated as broader business change projects that have an impact on roles, responsibilities and skills, rather than only involving technology transformation.

The adoption of AI-enabled and cognitive tools is expected to remain constrained, with executives forecasting a 11% increase (**Fig. 1** on page 7), despite their support of analytics and machine learning to provide better answers more quickly. They project a similar increase in the adoption of chatbots, which reduce friction in the human/machine interface, using natural language recognition. More broadly, we anticipate an increase in deployment of portals, data visualization tools and advanced analytics. Combined, these new technologies provide the opportunity for procurement to become much more data and insight driven, allowing teams to unlock more savings value, to improve process delivery and the end-user experience.

FIG. 1 Adoption and growth projections for emerging technologies



Source: 2021 Key Issues Study, The Hackett Group

¹Year-on-year percentage change in applicable adoption metric for each technology.

5. Improve procurement agility.

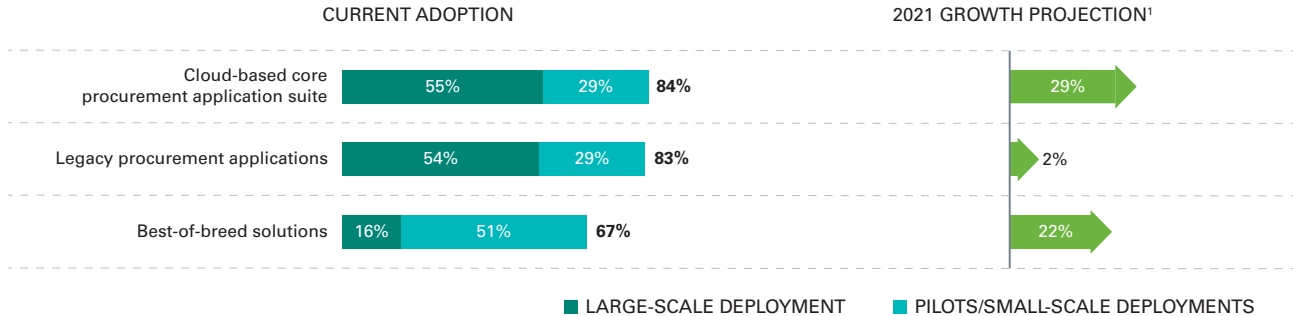
Procurement agility is critical for success, yet falls short of business expectations for the second year in a row. Top-performing procurement groups can predict and quickly respond to changes in the external marketplace, as well as business expectations, but they require an agile operating model and related processes to enable that flexibility.

In a procurement context, the meaning of agility varies by organization, but some capabilities are broadly applicable, such as transitioning orders quickly to back-up suppliers, mitigating external risk factors, preparing for merger and acquisition activity, or preparing for other supply chain risk and disruptions on an ongoing basis. This applies to indirect procurement – for example, personal protective equipment during the COVID-19 crisis – but it has the highest impact and meaning in direct procurement.

6. Modernize procurement application platforms.

Modernizing – consolidating, upgrading and migrating – the technology supporting the procurement function is critical for efficient processes, customer-centric workflows and user-friendly interfaces. These tools will enable agile behavior and free up time for strategic work. According to the 2021 Key Issues Study, procurement is halting investment in legacy or on-premise solutions, while 29% and 22% of organizations plan to grow cloud-based core procurement applications and best-of-breed solutions, respectively (Fig. 2). This indicates a widespread move to digitally enabled procurement operations.

FIG. 2 Adoption and growth projections for procurement application platforms



Source: 2021 Key Issues Study, The Hackett Group

¹ Year-on-year percentage change in applicable adoption metric for each technology.

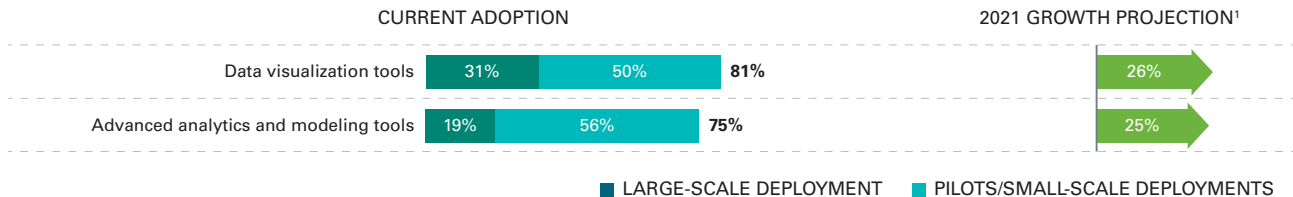
7. Align skills and talent with changing business needs.

Adapting the procurement talent model is long overdue. Procurement will need to update both soft skills (e.g., strategic thinking and business acumen) and hard skills (e.g., analytic decision-making and technology savviness). Organizations also need to consider how organizational models are changing and the general increase of virtual work. This means adapting teams to become global or agile and ensuring employees have the tools they need to succeed in new environments.

8. Improve analytical and reporting capabilities.

Among the top procurement issues, this was designated as having the lowest ability to address. And accordingly, 74% of organizations report having a current initiative underway to enhance and further develop data, insight, and analytics capabilities. Developing modern analytical capabilities is a complex process. Setting up a strong master data management program is the first – and one of the most critical – steps. Without access to extensive, trustworthy data, little can be gleaned from its analysis. Procurement must also carefully place resources with strong analytical skills and provide them with modern digital tools (Fig. 3). Developing analytical skills – internally and through external hiring for highly skilled roles – is essential for strategic decisions, predictive insights and agile behavior.

FIG. 3 Adoption and growth projections for data-related technologies



Source: 2021 Key Issues Study, The Hackett Group

¹Year-on-year percentage change in applicable adoption metric for each technology.

9. Enable corporate sustainability goals.

For the first time ever, sustainable procurement has become one of the function's top 10 issues, representing a broader shift toward a heightened importance of corporate social responsibility. In the past, sustainability meant little more than complying with regulations. Today, it generates business value through reduced costs, risk management and improved brand value. Over the years, environmental protection has become more important to government, businesses and consumers. It is also now at center stage in many discussions on corporate responsibility – many companies, in fact, have disclosed aggressive targets to the market that need to be fulfilled. The increased exposure has led to a sharp rise in the number of organizations and people willing to invest in sustainability initiatives. Additionally, business ethics continues to be an area that procurement groups target when working to attain more sustainable efforts and development. And labor and human rights – the third pillar of sustainable procurement – addresses the cultural well-being of people.

10. Increase spend influence.

Increasing spend influence is a constant focus of top-performing procurement organizations. Business partnership, customer-centricity and agile processes are all factors in spend influence, but none is more important than procurement's ability to bring something new to the table. Procurement must first understand what the business is looking for and then organize around those needs – for example, negotiations expertise or market intelligence – to deliver value.

Understanding the hurdles to procurement transformation

According to our 2019 Procurement Transformation Poll, fewer than one-half of procurement transformation initiatives consistently meet or exceed management expectations. According to the procurement executives surveyed, obstacles to success begin with stakeholder resistance to change or cultural resistance. As procurement enters the new normal, it is critical to bring employees and stakeholders along at the right pace

and with as much information and buy-in as possible. The second-greatest challenge is procurement's lack of critical skills. Procurement must have the appropriate skills and competencies to support its own transformation efforts, or progress is impossible. Overall, procurement's hurdles in 2021 look much like they did in 2020, indicating the need for continued focus on people development and engagement.

Ranking of top hurdles to procurement transformation

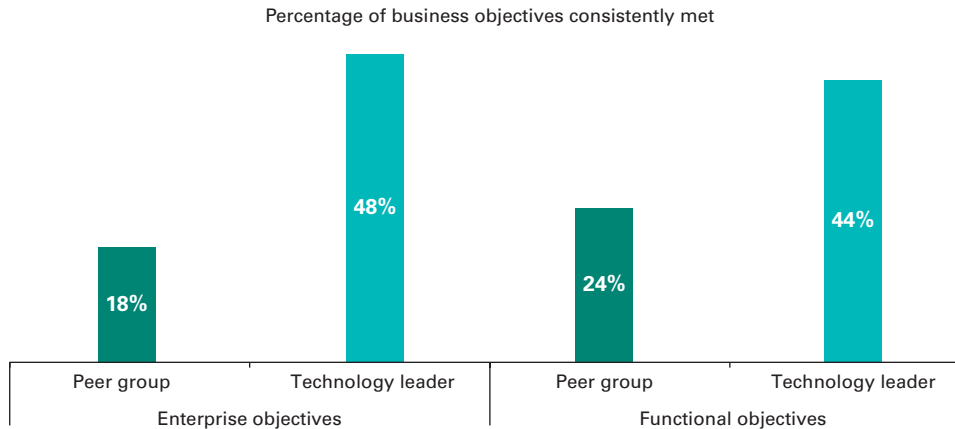
- | | | | |
|---|---|---|---|
| 1 | Stakeholder resistance to change | 5 | Data-related issues (e.g., poor data quality, security or governance) |
| 2 | Procurement staff deficiency in critical skills | 6 | Inadequate funding and resource allocation |
| 3 | Organizational complexity | 7 | Process complexity |
| 4 | Overcommitment of initiatives | 8 | Lack of commitment from enterprise executives |

Source: 2021 Key Issues Study, The Hackett Group

Digital acceleration and the realization of business objectives

Effectiveness of digital technology adoption is a factor that can increase the likelihood of achieving business and function goals. In this year's study, technology leaders – those organizations that attained greater success overall in implementing process automation, data and analytics, and emerging technologies – were able to address top enterprise and functional objectives far better than their peers (Fig. 4). This not only reflects how technology leaders are better able to improve their service delivery capabilities. It also points to their ability to redirect resources and build new capabilities that increase business contribution.

FIG. 4 Technology effectiveness improves realization of objectives

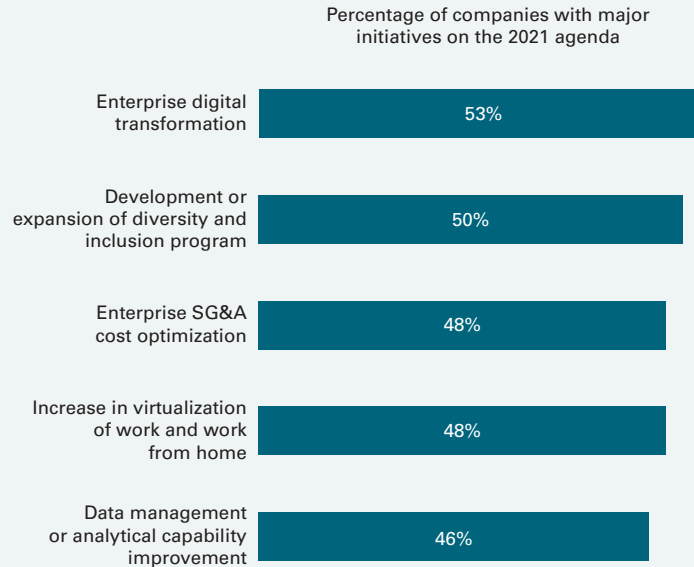


Source: 2021 Key Issues Study, The Hackett Group

Procurement alignment with enterprise priorities

The year ahead will bring the most dramatic shift in enterprise priorities since the inception of our annual Key Issues Study. Enterprise digital transformation rose five spots to become the top overall enterprise initiative. After going through an accelerated digital learning curve during the crisis, companies plan to capitalize on the lessons learned. Diversity and inclusion rose seven spots on the enterprise agenda. Cost optimization is always among the primary initiatives, but this year it dropped from the top of the list to third. The crisis triggered virtualization of work, elevating it into the top five initiatives for 2021. This will be an enduring characteristic into the next normal. Finally, data management and analytics continue to be an important focus on both the enterprise and procurement agendas.

Five top enterprise initiatives in 2021



Source: 2021 Key Issues Study, The Hackett Group

The call to digital action

Regardless of procurement's plans and priorities for the coming year, chief procurement officers (CPOs) will ultimately be judged on what they accomplished. When we look back a year from now, what must procurement have accomplished for the year to be considered a success? Here is our perspective on the 10 most critical actions and accomplishments.

- 1. Stability:** Support enterprise stability through ensuring continuity of core business operations with supply assurance and spend cost reduction.
- 2. Relationships:** Elevate and upgrade the role of procurement business partners to one of business enablement leaders who can develop and maintain strong business relationships.
- 3. Modernization:** Accelerate migration to cloud-based applications and platforms, and adopt tools to effectively deliver new services in supply risk and performance.
- 4. Digital transformation:** Employ smart automation and other emerging technologies to eliminate dependency on manual tasks and improve efficiency.
- 5. Skill gaps:** Close skill gaps in stakeholder relationships, business acumen, change leadership, strategic thinking, data savviness and customer-centric design.
- 6. Operating model:** Reinvent the procurement operating model to address bureaucracy, lack of collaboration and speed. Align high-level procurement business partners (business enablement leaders) with business leaders. Focus centers of excellence on creating program innovations and effective implementation. Deliver a great employee experience through digital channels and shared service centers.

7. **Agility:** Improve procurement agility through simplification, empowering decision-making and calculated risk-taking, deploying flexible teams, remote working, third-party staff augmentation, digital processes, and streamlined governance.
8. **Risk management:** Enhance third-party risk management capabilities across a broader range of risk exposures, going deeper into the levels of the supply chain, and continuous risk monitoring throughout the supplier life cycle.
9. **Data and insights:** Develop a strong master data program and supporting company culture, employ the right tools to improve spend insight, access required analytical skills, and deploy required internal and external intelligence sources to provide predictive alerts and additional business value.
10. **Influence:** Develop capabilities that respond to business needs and enable the function to influence spend across the enterprise.

AUTHORS

Laura Gibbons

Senior Research Director

Nicolas Walden

Senior Director, Procurement and Purchase-to-Pay Programs, UK

The Hackett Group

1000 Abernathy Road NE
Suite 1400
Atlanta, GA 30328

T. +1 770 225 3600

T. 1 866 614 6901 (toll-free)

W. www.thehackettgroup.com

London

Cannon Green
27 Bush Lane
London, EC4R 0AN, UK

T. +44 20 7398 9100

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- Master data management and architecture
- Spend management and analytics
- Working capital and cash acceleration
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